

ÁREA TEMÁTICA: COOPERATIVISMO

**TÍTULO: A FRAMEWORK TO MONITOR FINANCIAL EDUCATION
INTERVENTIONS PROMOTED BY CREDIT UNIONS**

ABSTRACT

Financial education is a way to develop financial literacy and an important intervention for financial well-being. In this context, financial education can be offered in different environments: school, online platforms, educational games, and, why not, in a financial institution? In Brazil, financial education must be offered by financial institutions, and these interventions must be monitored. A lot of financial institutions handle this as an exclusive compliance topic, but this could also be a competitive issue - especially for credit unions. This paper proposes a framework to define key results to monitor financial education interventions promoted by Brazilian credit unions.

Keywords: financial literacy, financial education, credit union, key results

RESUMO

A educação financeira é um meio para o desenvolvimento do conhecimento financeiro e uma intervenção importante para o bem-estar financeiro. Nesse contexto, a educação financeira pode ser oferecida em diferentes contextos, como escolas, plataformas on-line, jogos e, por que não, em uma instituição financeira? No Brasil, intervenções de educação financeira devem ser adotadas pelas instituições financeiras autorizadas a funcionar pelo Banco Central e essas intervenções também devem ser monitoradas pelas próprias instituições financeiras. Muitas dessas instituições lidam com essa obrigatoriedade como uma questão de *compliance*, mas isso também pode ser um diferencial competitivo, especialmente para cooperativas de crédito. Este artigo tem o objetivo de apresentar um *framework* com a definição de resultados-chave para o monitoramento de intervenções em educação financeira promovidas por cooperativas de crédito brasileiras.

Palavras-chave: conhecimento financeiro, educação financeira, cooperativas de crédito, resultados-chave

1 INTRODUCTION

In Brazil, in 2019, the Central Bank published a recommendation to encourage financial institutions to promote financial education interventions (Central Bank of Brazil [BACEN], 2019). At that moment, financial inclusion and financial education were already a concern. According to the Standard & Poor's Ratings Services Global Financial Literacy Survey carried out in 2014, only 35% of Brazilian adults were financially literate (Global Financial Literacy Excellence Center [GFLEC], 2014).

However, after the Covid-19 pandemic, over-indebtedness increased. According to the Central Bank of Brazil, from January 2019 to December 2021, the household debt increased from 39,29% to 49,48%. In 2021, the Federal Government published Law 14.181 (Federal Government of Brazil, 2021) to prevent over-indebtedness. In 2023, the Federal Government published Law 14.690 (Federal Government of Brazil, 2023) to facilitate the process of debt renegotiation. In that law, it was predicted that the National Monetary Council and Central Bank needed to regulate financial education interventions promoted by financial institutions.

Therefore, the National Monetary Council and Central Bank of Brazil published Resolution No. 8, which established financial education measures to be adopted by financial institutions (National Monetary Council [CMN] & BACEN, 2023). In other words, in Brazil, financial education interventions must be offered by financial institutions, and its should also monitor their financial education interventions with their clients. In this context, credit unions have two ways to handle this: as a compliance topic or as a differential in the competitive market, aligning with the cooperative principles.

Financial education interventions can be effective in motivating consumers to have a financially capable behavior, such as breaking destructive behaviors and habits and stimulating financially sound behaviors (Brüggen et al., 2017).

Financial education is also a way to improve financial literacy (Huston, 2010), and financial literacy could be positively associated with financially capable behavior, such as the ability to handle emergencies (Murta & Gama, 2022) and the timely payment of credit card bills (Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013). Or could be negative, when the low level of financial literacy is associated with an absence of financially capable behavior, such as over-indebtedness and default (Gathergood, 2012). With all these associations, it is reasonable to conclude that members' financial literacy could affect the credit union's performance. For this reason, monitoring financial education interventions is more than a compliance topic; it is also a competitive and strategic issue.

Experts from a Brazilian financial institution, and essentially a credit union system, developed a framework to monitor the financial education interventions with its members to improve the results. This idea could be replicated by other credit unions around the world.

2 FINANCIAL EDUCATION, FINANCIAL LITERACY, AND FINANCIAL BEHAVIOR

It is normal to cause some confusion with these definitions: financial education, financial literacy, and financial behavior.

Financial education is a way to improve financial literacy. In other words, the purpose of financial education is to improve financial literacy (Brüggen et al., 2017; Huston, 2010) and can be offered in different environments, for example, schools, online platforms, and educational games (Willis, 2011).

Financial literacy is the knowledge about the fundamentals of financial concepts: risk diversification, inflation, numeracy, and compound interest. These are the fundamental concepts of financial decision-making (Lusardi, 2019). In this way, Lusardi and Mitchell (2008, 2011) developed a scale to measure financial literacy with five questions, called the Big Five. With five questions, it is possible to know the level of financial literacy.

Lastly, financial behavior is the behavior adopted by consumers from several interventions received during their life: access to financial education, access to financial services, personal skills, sociodemographic conditions, and family income (Brüggen et al., 2017). Some examples of capable behavior are timely payment, saving more money, and appropriate use of financial products and services (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013). In this context, it is not difficult to see a line that connects financial education to improve financial literacy and to develop capable behavior.

Therefore, credit unions have a responsibility and an opportunity to promote financial education interventions. Certainly, credit unions will reap the rewards of this with their members' capable behavior.

3 ACTING LOCALLY, THINK GLOBALLY

It is possible to perceive that several countries share the same social challenges. Low financial literacy rates and over-indebtedness are some examples of this, and Brazil is not the only country facing these challenges. In the United States of America, household debt rose by \$109 billion to reach \$17.80 trillion in the second quarter of 2024, “with 3.2% of outstanding debt in some stage of delinquency” (Federal Reserve Bank [Fed], 2024). In the United Kingdom, household debt was 123.7% of household incomes in the last quarter of 2023 (House of Commons Library, UK Parliament, 2024).

Furthermore, according to the Standard & Poor's Ratings Services Global Financial Literacy Survey carried out in 2014, only “33% of adults worldwide were financially literate. This means that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts” (GFLEC, 2014). Figure 1 shows financial literacy rates by country.

Countries with advanced economies have better financial literacy rates than those with emerging economies. “But even across these countries, financial literacy rates range widely, from 37% in Italy to 68% in Canada” (GFLEC, 2014).

In addition, Brüggen et al. (2017) proposes the Financial Well-Being Framework which considers financial education interventions as a way to influence financial behavior. Financial education interventions can also help credit unions to improve customer portfolio management. For this, it is important for credit unions to have a way to monitor the results of their investment in financial education interventions.

Financial education interventions could be a way to handle these social challenges around the world. Several papers have shown that financial literacy could be positively associated with financially capable behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012). Therefore, a framework for credit unions to monitor financial education interventions with their members and also improve their results. This framework could also be replicated by financial institutions around the world, specifically by credit unions, whose business

model presumes a high level of members' financial education. Credit unions have seven global principles:

- Principle 1 - Voluntary & Open Membership
- Principle 2 - Democratic Member Control
- Principle 3 - Member Economic Participation
- Principle 4 - Autonomy & Independence
- Principle 5 - Education, Training & Information
- Principle 6 - Cooperation Among Cooperatives
- Principle 7 - Concern for Community

For this paper, it is important to highlight Principle 2 - Democratic Member Control and Principle 5 - Education, Training, and Information.

According to ICA (2024), "credit unions are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership". This explains principle 2. Therefore, to make good decisions, it is important to have a good education level, which explains principle 5. The higher the level of education, the better decisions will be made. It is reasonable to assume that financial and cooperative education are essential for members of a credit union.

It was in this context, and also considering that the Central Bank of Brazil established financial education measures to be adopted by financial institutions (CMN & BACEN, 2023), that the framework, which will be presented in the next topic, was developed in a Brazilian credit union system, and also for this reason, it could be replicated by other credit unions.

4 STEP-BY-STEP TO DEVELOP A FRAMEWORK TO MONITOR FINANCIAL EDUCATION INTERVENTIONS PROMOTED BY CREDIT UNIONS

4.1 Interviews

To set the credit union's goals regarding financial education interventions, interviews were carried out with the credit union's executives responsible for the areas of Credit, Marketing, Strategy, Corporate Education, and Sustainability, and also with Central Bank representatives. With structured interviews, it is possible to collect information about the perception of these professionals (Kvale & Brinkmann, 2009).

These interviews were carried out online by an independent consultancy in March 2023. The decision to hire an independent consultancy was to ensure impartial interviews. Each interview lasted approximately one hour and had nine questions regarding the main topics: expected results, assessment, benchmarking, internal challenges, and governance (Appendix A).

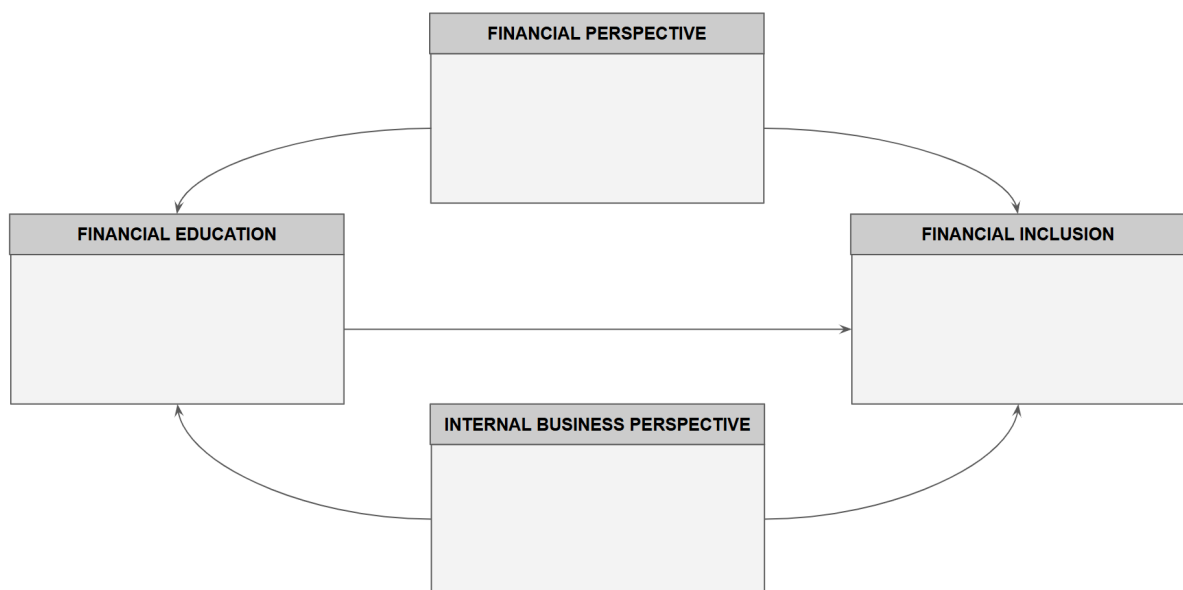
These interviews were carried out with 18 professionals, and the goals mentioned by them were related to:

- address compliance issues
- align the financial education initiative with business goals
- promote financial inclusion and increase the customer base
- improve customer financial well-being

4.2 Perspectives and Key Results

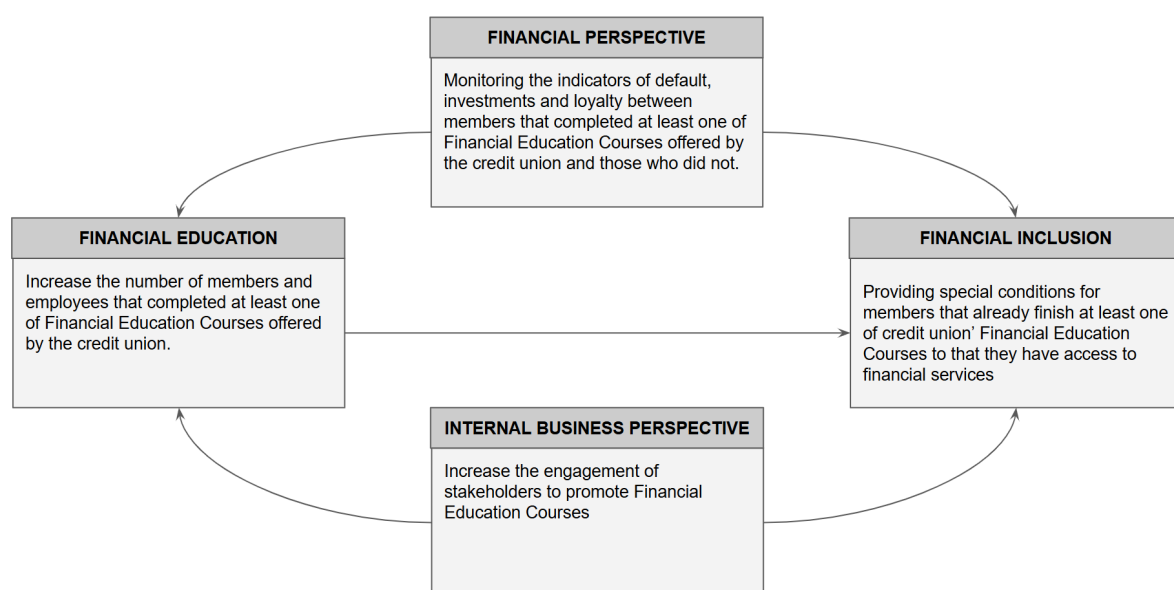
After the interviews were carried out and considering the goals mentioned, it was possible to develop a framework with four perspectives: Internal Business Perspective, Financial Education, Financial Inclusion, and Financial Perspective (Figure 2).

Figure 1 - Financial education perspectives



In each perspective, some key results were defined and aligned with the credit union's strategic plan, which is: increase the engagement of stakeholders to promote Financial Education Courses; increase the number of employees that completed at least one of Financial Education Courses offered by the credit union; increase the number of members that completed at least one of Financial Education Courses offered by the credit union; providing special conditions for people that already completed at least one of Financial Education Courses offered by the credit union to have access to credit union services; monitoring the indicators of default, investments and loyalty among members who completed at least one of Financial Education Courses offered by the credit and those who did not (Figure 3).

Figure 2 - Financial education key results



The foundation of the idea presented lies in the hypothesis that financial education interventions improve members' financial literacy. Therefore, members who completed at least one of the Financial Education Courses offered by the credit union should present financially capable behavior (ex., timely payment, save more money, appropriate use of financial products and services). This entire process lasted six months.

5 FINDINGS AND RESULTS

This framework makes it possible to compare some results among members who completed at least one of the Financial Education Courses offered by the credit union and members who have not. The percentage of defaults regarding members who have completed at least one of the Financial Education Courses offered by the credit union is less than that of members who have not. This percentage considers the ratio between the total default balance and the total credit balance granted (Figure 4).

Figure 4 - Results

	Members who have completed at least one of the Financial Education Courses offered by the credit union	Members who have not completed at least one of the Financial Education Courses offered by the credit union
More than 15 days and less than 90 days default	3,3%	5,1%
More than 90 days and less than 180 days default	2,0%	2,4%
Loyalty	42,8%	15,7%

Data: July, 2024

Moreover, members who have completed at least one of the Financial Education Courses offered by the credit union are more loyal than members who have not. This considers the percentage of members who have more products and credit acquired at the credit union than at any other financial institution (Figure 4). These results are in consonance with research related to financial education and financial behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012).

6 CONCLUSION

This framework was implemented at a Brazilian credit union in January 2024, and the indicators have been monitored since then. If other credit unions around the world implemented a similar framework, it could be an opportunity to join the next study and compare some results. Until this date, the author has no knowledge of other articles with a similar approach regarding the benefits of financial education for credit unions.

A lot of papers have shown that financial literacy could be positively associated with financially capable behavior (Murta & Gama, 2022; Lusardi & Tufano, 2015; Lusardi & Mitchell, 2013; Gathergood, 2012). If credit unions begin to monitor this association, this could also motivate investments in financial education initiatives to improve the financial market, financial policies, and to develop a sound and sustainable economy.

Besides, this framework is especially important for credit unions that would like to adopt sustainability initiatives in their strategies, with emphasis on popular banks and credit unions, which have the principles to encourage them to promote education to their members. For future research, efforts could be applied to understand how to provide special conditions for members who have a good level of financial literacy; maybe an analysis of credit risk could consider this.

AUTHOR STATEMENT

The author is the main author of this article and is responsible for all writing. All data for this research was provided by a Brazilian credit union system.

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APPENDIX A - Questionnaire

INTRODUCTION

Thank you for your time. This interview's goal is to explore your perspective on financial education interventions promoted by credit unions and how this could contribute to members' financial well-being and to the credit union's goals. Your participation is voluntary, and your personal information will not be shared. Your answer will be collected for qualitative research to develop a framework to monitor financial education interventions promoted by credit unions.

EXPECTED RESULTS

1. What are the main results that you expect from financial education intervention promoted by a credit union for its members?
2. How are the stakeholders involved in these expected results?
3. What are the impacts and benefits of financial education intervention that could be promoted to the business goals?

ASSESSMENT

4. How to evaluate the success of the financial education intervention promoted by this credit union?
5. What outcomes do you expect to have if you are a user receiving a financial education intervention?

BENCHMARKING

6. What are your references for good practices from financial education interventions promoted by other institutions?

INTERNAL CHALLENGES

7. What are the strengths and weaknesses of this credit union in coordinating financial education interventions with its members?
8. What do you think could be done to overcome these weaknesses?

GOVERNANCE

9. What would be the optimal governance model for a financial education agenda in this credit union?